

## **Mannapuram Q3 2020 Earnings Call**

### **Company Participants**

- Shweta Daptardar, Research Analyst
- Salil Bawa, Senior Vice President, Investor Relations and Treasury
- V.P. Nandakumar, Managing Director and Chief Executive Officer
- Bindu AL, Chief Financial Officer
- Raja Vaidhyanathan, Managing Director, MFI
- K. Senthil Kumar, Head, Commercial Vehicle
- Jeevandas Narayan, Managing Director, Housing Finance

### **Other Participants**

- Manish Ostwal, Analyst
- Utsav Gogirwar, Analyst
- Shubhranshu Mishra, Analyst
- Kunal Shah, Analyst
- Antariksha Banerjee, Analyst
- Nischint Chawathe, Analyst
- Arpit Shah, Analyst
- Ashish Sharma, Analyst
- Kaitav Shah, Analyst
- Kislay Upadhyay, Analyst
- Aarsh Desai, Analyst

### **Presentation**

#### **Shweta Daptardar, Research Analyst**

Thank you, Nirav. Good evening, everybody. On behalf of Prabhudas Lilladher, I welcome you all to the Q3 FY '20

Earnings Call of Manappuram Finance. We have with us the management, represented by Mr. V.P. Nandakumar, MD and CEO; Ms. Bindu AL, CFO; Mr. Raja Vaidhyanathan, MD, Asirvad Microfinance Limited; Mr. Jeevandas Narayan, MD, Manappuram Home Finance Limited; Mr. K. Senthil Kumar, CEO, Vehicle and Equipment Finance; Mr. Salil Bawa, Head, Investor Relations.

I would now like to hand over the call to Salil for further remarks.

#### **Salil Bawa, Senior Vice President, Investor Relations and Treasury**

Thank you very much, Shweta. Good evening, everyone. Thank you for joining us on the Q3 FY '20 Results Conference Call of Manappuram Finance Limited. During the discussions, we will be referring to the Q3 FY '20 investor presentation uploaded on our website.

Before we begin, I would like to state that some of the statements in today's discussions may be forward-looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the results document shared with you earlier.

With that, I would like to now invite Mr. Nandakumar-ji to begin the proceedings of the call. After his overview, we will have a financial update from the CFO. Post that, we will open the floor for Q&A. Thank you very much, and over to you, sir.

### **V.P. Nandakumar, Managing Director and Chief Executive Officer**

Thank you, Salil. Ladies and gentlemen, welcome to Manappuram Finance Q3 FY '20 conference call. I'm happy to report that our Q3 performance represents continued progress along our stated objectives of growth, without sacrificing profitability or compromising on risk. We have achieved good increase in business volumes and profitability and we are well placed to keep up the momentum.

Key performance highlights for Q3 are as follows: Our consolidated AUM has crossed INR24,000 crores. Consolidated AUM is up by 35.5% year-on-year and 6.3% quarter-on-quarter, led mainly by gold loan. Growth in our main business of gold loans was better than prior guidance, as gold loan AUM grew by 7% on a sequential basis and 30% on a year-on-year basis. The growth was driven by a combination of increase in gold holdings, which grew up by 11%

year-on-year and higher gold prices. We observed that customers are not necessarily borrowing the entire 75% against the value of gold holdings. Our average life of the loan is around 60 days only. So at 60 days average duration plus the LTV of around 61% and the ticket size of around INR36,000, we feel very much insulated by the price fluctuation.

We have introduced digital gold loan, where the customer actually gets a facility to avail the loan and service the loan

24 hours a day. Even after office hours, we see transactions of millions of rupees happening, even on holidays sometimes it touches INR100 crores disbursement. Our microfinance subsidiary, Asirvad Microfinance continued to be an industry outperformer, with its AUM crossing INR5,000 crores, an increase of 57% year-on-year and 6.3%

quarter-on-quarter. Growth was driven mainly by new customer, as the average ticket size continues to remain close to its historical level of about INR22,000. Significantly, all disbursements are being made in a non-cash manner, so the strategy is focused on quality. Earlier also, we had a cap per state, the cap is 10%. While that remains at 10%, now we have put a cap listed to it, which is 1% with a direction to the management to reduce that to 0.5% in a three-year time span.

Our diversification initiatives are going well. India's automobile sector has borne the brunt of economic slowdown, but our combined vehicle -- our Commercial Vehicle finance business has performed quite well with low early delinquencies and attractive unique economics. Our housing loan portfolio is relatively small and has been steady in terms of asset quality. During the quarter, the company consciously chose to reduce its on-lending portfolio that is launched to smaller NBFCs and MFIs. Given the stress in the macroeconomic environment, the on-lending portfolio has come down from INR960 crore in March '19 to INR667 crore currently. Overall, non-gold portfolio now amounts for 33% of the consolidated AUM.

On the liquidity front, we have not faced any issues in raising funds for growth, even at the peak of liquidity crisis. On the liability side, we have raised \$300 million through issuance of medium-term notes with objective of further diversifying our funding profile and bring down dependence on short-term sources. We don't expect any funding challenges to come in the way of our growth

plans and we are comfortably placed with our ALM, which is -- which we monitor closely. We are reporting a consolidated quarterly net profit of INR398 crore and gross of INR1,000 crore for nine months period.

Thank you. And now, over to our CFO, Mrs. Bindu for a detailed look at the numbers.

### **Bindu AL, Chief Financial Officer**

Thank you very much, sir, and thank you all for attending this call.

So let me take you through the earnings update for the quarter that has gone by. Our consolidated AUM for Q3 FY '20 was INR24,099 crore, up by 35.5% year-on-year and 6.3% Q-o-Q. Consolidated profit after tax -- after minority interest was INR397.8 crore, grew by 63% year-on-year and our nine months consolidated profit after tax stands at INR1,069 crores. ROE on a consolidated basis was 30.4% and ROA of 6.3% for the quarter ended December 2019.

Talking about the gold loan business, which constitute 67.4% of consolidated AUM, the AUM increased by 29.7%

year-on-year and 7.1% Q-on-Q. Gold holdings stood at 73.5 tonnes as at December 31, 2019 and the tonnage increased by 10.9% year-on-year and 2.1% Q-on-Q. The total number of gold loan customers stood at 26.39 lakh. The gold loan book stood at INR16,243 crore. Auctions during the quarter were INR14 crore. As we are aware, we follow the policy of making regular auctions on overdue accounts. Our weighted average LTV stands at INR2,210 per gram or 61% of current gold price. Gold loan disbursements during the quarter, INR40,304 crore compared to INR50,296 crore in Q2

FY '20. The online gold loan book is steady, which accounted for 44% of the total gold loan.

Coming to microfinance, Asirvad MFI grew the AUM by 57.2% year-on-year at INR5,022 crore and delivered 26.8% ROE in Q3 FY '20. Asirvad MFI is now amongst the lowest cost providers of microfinance loans in India. Asirvad has taken the route of multi-state business operations to achieve this milestone. The company is rated AA minus stable by CRISIL, the highest credit rating in the MFI sector. For Q3 FY '20, Asirvad made a profit of INR59 crore. In Ind-AS transition, we provided 100% for loans due over 90 days. We have provided INR27 crore excess provision as compared to RBI Prudential Norms, thereby following a conservative approach. 100% of disbursements were made in a non-cash manner and Asirvad is having 2.1 million customers, 1,042 branches, 5,990 -- 5,909 employees and they are present in 23 states, with now the fifth largest NBFC MFI in the country. The company is having a capital adequacy ratio of 25%.

Vehicle Finance business, we have reported an AUM of INR1,397 crore, which is 6% increase Q-on-Q and up by

43.2% year-on-year and stable asset quality at 2.87% NPA. Business is now carried out of 214 branches across 22 states. The home loan business had a total loan book of INR601 crore, which is up by 5.9% Q-on-Q and up by 25.8% year-on-year. It operates 46 branches and reported a profit of INR6.2 crore during Q3 FY '20. Loan to corporate has reduced by 12.8% Q-on-Q to INR667 crore. This book consists of loan to small NBFCs, MFI, HSEs, et cetera.

The new businesses contributed 32.6% of consolidated AUM and remaining 67.4% is gold loan. The total consolidated borrowing stood at INR19,781 crore. Our average cost of borrowing in Q3 has decreased to 9.12% from 9.3% last quarter. To further diversify our borrowing profile, we

would continue to raise funds through money market instruments, NCDs, term loans from financial institutions and the overseas borrowing depending on the cost.

We have raised \$300 million in the first tranche of our MTN program this month with the view of further diversifying our funding profile and bring down the dependence on short-term sources. The fund has been raised by way senior secured fixed rate notes issuance for a three-year tenure. The issue was placed with a coupon of 5.9%. UBS and Barclays marketed the deal and there was a huge demand for the paper.

We benefited from significant operating leverage as overall OpEx has come down by 0.48%, while the AUM grew by

6.3% during this quarter. We expect to continue to drive benefit of operating leverage going forward. Our employee costs increased by 4.4% Q-on-Q to INR212.3 crore for the quarter. There is a rent reversal of INR29.5 crore due to implementation of Ind-AS 116 leases in this quarter. Similarly, our finance cost and depreciation has gone up by INR7.5 crore and INR20.2 crore respectively during this quarter due to Ind-AS 116. The overall number of gold loan branches stood at 3,531.

Provisions and write-offs for the standalone entity during the quarter were INR15.4 crore. Our gross NPAs was rupees

-- was 0.5% as quarter ended Q3 FY '20 as compared to 0.55% as of Q2 FY '20. Losses due to theft, spurious gold, et cetera only amount to 0.04% of AUM. The company's consolidated net worth stood at INR5,413 crore, the capital adequacy at 23.4%. The book value per share at INR64 of diversified business, the Board has declared an interim dividend of INR0.55 for this quarter.

We can now go for Q&A session. Thank you.

## **Questions And Answers**

### **Operator**

Thank you very much. We will now begin the question-and-answer session. (Operator Instructions) The first question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

### **Manish Ostwal, Analyst**

Yes, sir. Thank you for the opportunity. Very good set of numbers, sir. My question on the MFI business. So our total MFI AUM of INR5,022 crores, in the state of Assam, what is the proportion of that AUM and what is the collection efficiency pan-India and in Assam state?

### **V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Raja?

### **Raja Vaidhyathan, Managing Director, MFI**

Yeah. Our portfolio in Assam is only about INR43 crores. We have a very small presence in

Assam and we are not affected by all these problems there. So as of December 31st, we have got about INR47 crores and the par is only about INR43 lakhs there for us, so NPA is only about INR43 lakhs. So we are not -- we have only about 14 branches and we have not grown this year in Assam.

**Manish Ostwal, Analyst**

Sir, any specific reason why we have -- your portfolio has not been impacted, what we have done differently there?

**Raja Vaidhyathan, Managing Director, MFI**

Not -- we entered Assam only last year and we were -- while we wanted to expand, the issue has come up and we stopped expansion totally. And also we are in the other part of Assam, lower part of Assam and not in the upper Assam, where issues are there.

**Manish Ostwal, Analyst**

Sure. Sure. On the gold loan book, sir, whenever the gold prices rises and if we maintain our LTV at a particular level, so in a rising gold loan prices, do our risk management system increase -- decrease the LTV, so that in a falling gold price scenario, we are well managed?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Our gold loan tenure, the contract period is only three months.

**Manish Ostwal, Analyst**

Okay.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

I feel like in the industry, only our tenure is the shortest. I feel what I understand the industry, others are offering the loan for a period of one year. This itself protects. And you see our average LTV is around 61%.

**Manish Ostwal, Analyst**

Okay.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah.

**Manish Ostwal, Analyst**

Yeah. And secondly, sir, of our total loan -- incremental growth of gold loan portfolio, can you tell us the -- in terms of end user application of funds, I mean, it's more business purposes or it also

consumption purpose, so the gold loan funds raised by the customers?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

In a survey we have conducted a few years back, what has come out is the use of funds is one-third for seasonal agriculture, small farmers use it as working capital for a short duration, one or two months, three months, et cetera. Another one-third, these are mostly used by cottage industries, micro entrepreneurs, micro retailers, et cetera, again, for working capital purpose. And the balance one-third for hospital purpose, or children's education or consumption, it goes like this.

**Manish Ostwal, Analyst**

Sure, sir. Thank you very much.

**Operator**

Thank you very much. Next question is from the line of Utsav Gogirwar from Investec Capital. Please go ahead.

**Utsav Gogirwar, Analyst**

Thanks for the opportunity, sir. Just a couple of questions. If I look at the Asirvad AUM mix, the share of AUM in North region has increased from 12% to 21% in just one one quarter. Is this correct?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Vaidhya? Mr. Vaidhya?

**Raja Vaidhyanathan, Managing Director, MFI**

Sir, I'm just answering. Our classification of North includes -- we have added Bihar also now, earlier it was not there, so we've added Bihar also, that's the reason this change is there, otherwise it's not.

**Utsav Gogirwar, Analyst**

Okay. Okay. So, the classification from East, you have moved it to North?

**Raja Vaidhyanathan, Managing Director, MFI**

Yeah.

**Utsav Gogirwar, Analyst**

Okay. Fine. Sir, second question is on the vehicle finance. If I look at sequentially, the

vehicle finance branch has declined from 229 to 214.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Senthil?

**K. Senthil Kumar, Head, Commercial Vehicle**

Thank you, sir. Hi. Yes, we have -- like, we have done a bit of consolidation in terms of branches, wherever we felt that our operations have not been viable. So, we have moved the accounts to the nearby branches, hence the number of branches have come down from 229 to 214 locations. We operate across -- we don't have standalone branches, we are present in gold loan branches only. So in that way, we've consolidated a few locations into a single branch.

**Utsav Gogirwar, Analyst**

So this location has some region specific, South or is it on a Pan India level, how is it?

**K. Senthil Kumar, Head, Commercial Vehicle**

It is on a pan India level, there is no such regional specific focus on this. And mainly, these are all smaller locations for a better operational control and viability, we have managed this location -- we've merged these locations.

**Utsav Gogirwar, Analyst**

Okay. And sir, just one more question. If I look at the operating expenses, it has been consistently declining and we are doing excellent job on controlling cost. But how long do you think, sir, this will continue and how do we see the cost to income or OpEx to AUM ratio for next year?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

So, year-on-year, our expectation is it should come down by 100 basis points year-on-year, that's what we are targeting.

**Utsav Gogirwar, Analyst**

100 basis points you mentioned, sir, right?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah, an year. This is possible with the growth of portfolio, both in gold loan, vehicle finance and other businesses without much increase in branch count. So -- the increase in the branch count is less, but the growth in the volume is higher. This is how we just targeted and we are at -- because of that, we are able to achieve this.

**Utsav Gogirwar, Analyst**

Okay. So I have few more question, I will come back in queue. Thanks, thanks for the opportunity.

**Operator**

Thank you very much. (Operator Instructions) Next question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

**Shubhranshu Mishra, Analyst**

Hi, sir. Thank you for the opportunity. A few questions. One is that we've had very strong gold loan disbursements in third quarter as well as the second quarter, this is almost as good as the four quarters before this. So how do we look at gold disbursements in the next two odd -- two to three quarters, sir? That's the first question.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah. Tonnage is slowly increasing, this quarter we expect that to grow by around 3%, 4%.

**Shubhranshu Mishra, Analyst**

Okay.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Tonnage growth. Tonnage growth.

**Shubhranshu Mishra, Analyst**

Right. And how do we -- what is the control on the LTV, I missed out on that part, what is the LTV in this particular quarter?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

61% is the average LTV.

**Shubhranshu Mishra, Analyst**

61%?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah.

**Shubhranshu Mishra, Analyst**

Right sir. And sir, just want to understand your risk management practices in your microfinance business, given that we are now spread out into 22 states. Apart from the caps that you just

mentioned, what are the other measures that we've taken for risk management in microfinance, sir, especially because your provisions have increased in the microfinance business in this particular quarter, they're pretty steep? So how do I look at the credit cost in microfinance business going forward, sir, and the risk management factors?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Vaidhya?

**Raja Vaidhyanathan, Managing Director, MFI**

Yeah. The -- as the Chairman said, the biggest change we've made is we've moved to a district-level risk exposure, that's a major thing which affects the microfinance. If -- usually, whenever there is an event, the district and some towns in the districts get affected and some contiguous districts get affected. So most of the companies do not have this level of district-wise exposure. We are -- in our Asirvad is about nearly 80% of our districts are -- we have below 0.5% of the AUM. So we are insulated from any major events happening in a particular district, the other districts are insulated, that's the first one.

The second one is we have never increased our ticket size beyond a certain number, we still, even after 11 years of our operations, our maximum ticket size is only INR45,000, so we have not gone really berserk and increased to INR60,000 or INR1,00,000 and all that, we still maintain that. And the third is every new geography we go, the first lending is always at a INR25,000 to INR30,000, although the person has a microfinance, we still want to try out our experience with the customer and it is always at a INR25,000 to INR30,000. And -- these are the things and we go by a lot of analytics, we find out how the -- that particular geography has behaved in the past, now we have so much of data from the bureaus, so it's a very -- the way we open a branch and the way we lend, it's all backed by a lot of data now.

**Shubhranshu Mishra, Analyst**

Right. And what is the cap on the number of loans MSI customer can have, which is inclusive of MSI as well as any other finance?

**Raja Vaidhyanathan, Managing Director, MFI**

Three -- we have also signed to that code of responsibility lending. So it's three as of now.

**Shubhranshu Mishra, Analyst**

This is inclusive of MSI or any other financier?

**Raja Vaidhyanathan, Managing Director, MFI**

Yes, yes. Two plus one, actually two MFIs and one any other bank you can have.

**Shubhranshu Mishra, Analyst**

Right. Sure, sir. And my last question is for the liquidity management. We have gone out and borrowed from ECB. What is the exact issue that we're facing from banks right now? Are we still facing some kind of liquidity crunch from the banks?

**Raja Vaidhyanathan, Managing Director, MFI**

That's Manappuram, I think.

**Bindu AL, Chief Financial Officer**

So, we have -- we were having around INR1,600 crores in liquidity as on 31st December, but we want to diversify the borrowing profile and we want to test the overseas market. That is the reason we did this transaction. Domestic market is still supporting, we got enhancements from the banks, et cetera, but we want to test this transaction also.

**Shubhranshu Mishra, Analyst**

So what is the price that you get, an average risk premium over the MCLR from the banks?

**Bindu AL, Chief Financial Officer**

So that depends --

**Shubhranshu Mishra, Analyst**

Just a ballpark number. I understand it will be different for different banks, but a ballpark number would be very helpful.

**Bindu AL, Chief Financial Officer**

That I will get back, average borrowing cost is 9.25%.

**Shubhranshu Mishra, Analyst**

Sure, ma'am. And just one last data point ma'am, what is the accrued interest as of third quarter?

**Bindu AL, Chief Financial Officer**

INR512 crore.

**Shubhranshu Mishra, Analyst**

INR512 crore. Thank you.

**Operator**

Thank you. Next question is from the line of Kunal Shah from Edelweiss Broking Limited. Please

go ahead.

**Kunal Shah, Analyst**

Yeah. Firstly in terms of the gold loan and the strong growth which we are seeing, if you can just highlight is it more because of the demand itself going up for the gold loan and how much would be the competitive advantage because one of the other players is facing issues in Kerala and they are slowing down? So is there the overall gain, market share gain which we are seeing for ourselves? So is there a component of some market share gain because of disruption in the peer?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

See, we have both the advantages. One, tonnage growth, as well as the gold price, both have been advantageous to us.

**Kunal Shah, Analyst**

Yeah. But in terms of the competition, are we gaining because maybe the fear is facing the disruption? So, is that the reason that we are back to 30%-odd or it's a genuine demand at the ground level which is leading to this kind of a growth and it's a sustainable one?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

It is a genuine demand. Reason is in Kerala our exposure is around 5% of AUM, similarly for the other company also, their exports is very low. So with this low level of exposure, I don't think that has been a reason for our performance.

**Kunal Shah, Analyst**

No. So overall in terms of the INR1,000 crores kind of an increase which is there, how much would be coming in from the Kerala as such?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

It's very low. Our gold loan portfolio in Kerala is around INR500 crores. It is around INR500 crores of our total gold loan AUM of INR16,000 crores.

**Kunal Shah, Analyst**

Okay. It's only INR500 crores?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah, which is small.

**Kunal Shah, Analyst**

Okay, okay. And secondly in terms of Asirvad, so what's the exposure in Karnataka? And the INR16 crores which we had taken for say some disturbances in Mangalore district, are we through or we expect more provisioning to be done? So firstly, what is the overall book in Karnataka and how much of that is already considered in terms of the provisioning?

**Raja Vaidhyathan, Managing Director, MFI**

This issue in Karnataka, Karnataka, we have about INR400-odd crores in overall, but this is only in two districts of Karnataka, where Mangalore and Udipi districts we have this problem, it's a very political -- localized political issue. And we have -- although it has not exceeded 90 days, very prudent based on our discussion with the auditors, we have taken this INR15 crores and provided for this now. The total exposure in that area, which might get affected is about INR36 crores.

**Kunal Shah, Analyst**

Okay. So of this INR36 crores, we are already done with INR16-odd crores?

**Raja Vaidhyathan, Managing Director, MFI**

INR15 crores. Yeah.

**Kunal Shah, Analyst**

Okay. And lastly in terms of CV financing, so our CV book has grown quite significantly over last three years, maybe from INR300 crores to INR600 crores and now almost like INR1,400-odd crores. And given this kind of maybe the sentiments in the CV industry, how sustainable is 2.87% GNPL vis-a-vis where the entire industry is and should we see the catch-up in terms of the GNPLs over next two, three quarters?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Senthil?

**K. Senthil Kumar, Head, Commercial Vehicle**

See, we've been maintaining this around 2 -- our GNPL around 2.8% over the last couple of quarters and I've seen some sort of green shoots in the last month or so, at least in terms of receivable wise, there has been a green shoot. Probably the offtake of few new vehicles are yet to pick up, but in terms of receivables I think I don't -- I've not seen any -- at least we've not seen any increase in spread. In that way, I think we should be able to maintain our GNPA at this level. I don't foresee a very big jump in terms of the absolute amount in terms of GNPA going in the next few quarters. I think it should be at the same level.

**Kunal Shah, Analyst**

Okay. Okay, yeah, thanks a lot.

**Bindu AL, Chief Financial Officer**

Yeah. So, Kerala we are having nearly 500 branches and the total AUM is around INR1,000 crore -- INR970 crores.

**Kunal Shah, Analyst**

INR970 crores in Kerala. Okay, yeah. Thank you.

**Operator**

Thank you. Next question is from the line of Antariksha Banerjee from ICICI Mutual Fund. Please go ahead.

**Antariksha Banerjee, Analyst**

Yeah. Am I audible? Hello?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah, yeah.

**Antariksha Banerjee, Analyst**

So, two questions. One is in the gold loan business. Can you give us what would the book would be above 1 lakh ticket size? Or whatever you define as high ticket? Maybe the second question I can ask you, if you can fetch that data. The second is on microfinance --

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

It's around -- yeah, it is around 50%.

**Antariksha Banerjee, Analyst**

5-0?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah.

**Antariksha Banerjee, Analyst**

Okay. And the second question is on microfinance, per se, when we enter a new geography, sir, is our strategy to spread across in districts in a particular geography or do we -- I mean, the annual ticket you mentioned about, does it, I mean, narrow down to a particular district and we just expand in that district? Is it clustered around a particular center or is it district-specific?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Vaidhya?

**Raja Vaidhyanathan, Managing Director, MFI**

Whenever we enter a new geography, we choose a district which is the most beneficial for us and then that -- using that as a hub, we have branches as spokes. So that's a usual model. So, what we now do is we -- there is a clear dashboard of how are we choosing the district, the district where it has the least disturbance in terms of political, in terms of natural calamities, in terms of -- all the data is available. Based on that, then we -- around that we have clusters, branches as clusters.

**Antariksha Banerjee, Analyst**

Okay. Okay. But it need not be contiguous, it can be one particular concentration in one state and second can be anywhere?

**Raja Vaidhyanathan, Managing Director, MFI**

Yeah, yeah. But -- that is true, but we don't -- there's also a distance criteria, we don't have branches spread to 100 kilometers and all that. So, there is a method in which we open the district. So, if the district has only potential of few branches, we may not even enter that district initially.

**Antariksha Banerjee, Analyst**

Okay. Okay. And just one question on vehicle, sir, can you throw some light on (Technical Difficulty) composition, how much of (Technical Difficulty) it's grown decently and what geography it will be mainly coming from?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Can you repeat the question?

**Antariksha Banerjee, Analyst**

In the vehicle finance portfolio, what is the broad product composition, how much would be used vehicles, how much would be cars or whatever you're doing? And the second part is, what geographic split roughly it is?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Senthil?

**K. Senthil Kumar, Head, Commercial Vehicle**

Yes, sir. See, in terms of new and used, our used book should be around 86%, 87% of the

portfolio and new book should be around 13% of the portfolio. And in terms of the -- in terms of geographical spread, I think we are almost -- we have a slight concentration in South in terms of -- like we have around 35% of our portfolio in South. And in terms of the North and West, we are almost around 27 -- around 27% in both the regions and around 11% in East. And see car is -- like car is a very small portfolio, it's very nascent portfolio as of now. So it should be -- it is almost around 3%, it is less than 5% of our portfolio.

**Antariksha Banerjee, Analyst**

Okay. (Technical Difficulty) question --

**Operator**

Sorry to cut you Mr. Banerjee. I'll ask -- I'll have to ask you to come back in the question queue for --

**Antariksha Banerjee, Analyst**

Sure, sure.

**Operator**

Thank you. Next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe, Analyst**

Yeah. Hi. My question actually pertains to your operating expenses. While your tonnage growth was close to around 11% year-on-year, your operating expenses are just up around 7%. And if I really kind of try to look at your operating expenses ex of Asirvad, actually that number is sort of almost down 10% year-on-year. So I'm just trying to understand as to what is it that you're doing and how sustainable is this?

**Bindu AL, Chief Financial Officer**

So, OpEx, one reason is increase in the volume and the second reason is which we guided a few quarters ago. We were having around INR45 crores quarter-on-quarter towards the physical security guards, the cost towards the physical security guards. And we implemented and improved the electronic security and the cellular safe, which we installed in all the branches. Thereby, we were able to reduce the security cost. So that is the major savings we did. And rest - - rest everything is coming from the operational efficiency. We are maintaining similar kind of branches, but the volume per branch is increasing.

**Nischint Chawathe, Analyst**

Sure, sure. Okay. Thank you very much.

**Operator**

Thank you very much. (Operator Instructions) Next question is from the line of Arpit Shah from Stallion Asset Management. Please go ahead.

**Arpit Shah, Analyst**

Hi. I just wanted to understand why our provisions have jumped up, even if I exclude the Karnataka impact, the provision in MFI space has jumped up largely, maybe 2x to 3x excluding the Karnataka. So where it was coming from actually?

**Raja Vaidhyanathan, Managing Director, MFI**

No, in fact, our gross NPA is about 1.12%, it has increased marginally because (inaudible) still it is lower than the industry number, the -- it is increasing across India, the delinquency is increasing in microfinance across India for various reasons. It could be political, it could be natural calamity, it could be a lot of other issues. So what was earlier about 1% that new normal is increasing in this business, it's moving towards about 1% to 1.5% now, so that's the reason. Karnataka specifically, it is a very local issue, but the industry, about INR600 crores, INR700 crores is locked up in that, out of which we are less than 10% portfolio we have. Out of that INR60 crores, we have -- only INR36 crores is addressed for us. So it's -- but we expect this to be resolved, however, (inaudible) abundant caution we have provided this.

**Arpit Shah, Analyst**

Okay.

**Raja Vaidhyanathan, Managing Director, MFI**

It's not as if the people don't have money, they have been withheld because of some other outside reasons.

**Arpit Shah, Analyst**

Okay, okay. And what is the kind of tonnage growth we are targeting, let's say, for FY '21, '22, what is the kind of growth that we are targeting?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah, tonnage growth, what we target is around 10% to 18%.

**Arpit Shah, Analyst**

12% to 18%?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

10% to 15%.

**Arpit Shah, Analyst**

10% to 15%. Okay, okay. Thank you so much.

**Operator**

Thank you. Next question is from the line of Ashish Sharma from ENAM Asset Management. Please go ahead.

**Ashish Sharma, Analyst**

Yeah, hi. Thanks for the opportunity and congratulations on a good set of numbers, sir. Sir, just first one on the medium term note program. So we mentioned that we have raised one -- the first tranche. So, do we need to sort of go for another tranche and -- because it's an expensive borrowing source? That will be the first question. And second, you mentioned the number on the auction in the initial remarks. I'm -- sort of missed that. Could you just give that again?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Auction?

**Bindu AL, Chief Financial Officer**

INR14 crore, INR14 crore during the quarter.

**Ashish Sharma, Analyst**

And for the nine months, ma'am?

**Bindu AL, Chief Financial Officer**

Nine months, it is around INR100 crores.

**Ashish Sharma, Analyst**

Okay, okay.

**Operator**

Thank you. Next question is from the line of Kaitav Shah from Equirus Capital. Please go ahead.

**Kaitav Shah, Analyst**

Yeah, good evening. First, congratulations on your good set of numbers. Sir, my first question is, trying to understand your credit underwriting. What is the new to credit that we normally see across all businesses?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

New to credit in -- you want all businesses, CV --?

**Kaitav Shah, Analyst**

Yes, sir.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yeah. Yeah, Senthil, you can -- Senthil, you can start. New to credit.

**K. Senthil Kumar, Head, Commercial Vehicle**

Yeah. New to credit around 60% of our customers are -- they don't have much of bureau records. And so we term them as new to credit. We do have different parameters to underwrite these customers in terms of, for example, you take in terms of a two-wheeler loan or even for that matter a commercial vehicle loan, we have other surrogate means of calculating income through surrogate means and also we have other -- we've also identified other alternate source of data through which we are able to assess the customer repayment capability. And we've also tied up with couple of bureaus, where using this assessment of alternate data, where we assess and understand this capability and we have benchmarked like -- for example, we have collected data of similar type of profile of customers from the bureaus and -- where we have built -- like -- where we've built a (inaudible) profile, based on which we are able to -- like to a certain extent control or assess the on-boarding of customers.

And in terms of commercial vehicle specifically, like it is a combination of both the scorecarding -- on-boarding of customers through scorecard mechanism and also personal discussion with the customer to analyze as to where is he plying his vehicle and like what will be the operational -- like what will be the operational dynamics between -- if he is going to ply a certain type of vehicles between couple of cities et cetera, so that is it in terms of, like, the credit assessment.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Jeevandas?

**Jeevandas Narayan, Managing Director, Housing Finance**

Yes, sir. Good evening. In fact, as far as the housing loan is concerned, the picture is slightly different because in most of the cases what we have seen is, even though they are from the lower strata and within the affordable segment, most of them because it may not be the first loan that they are availing, most of them have a credit score. And also as a risk management practice, we have kept that, we need to have minimum credit score. But nevertheless having said that, around 20% to 25% of the customers would be new to credit, minus 1%, but we do have a multi-bureau check. So that if it is not there in one, we check with the CIBIL. If it is not in CIBIL, we check with Equifax. But also if it is slightly less than the minimum score that we are looking for, then we also have a mechanism of deviation metrics, we would look at other factors and try to

see if the case would fit in. But what we have seen overall is that around 20% to 25% of the people and maximum maybe, not stretching beyond 30% on a ballpark basis, would be people who may not have a credit score.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Question is answered.

**Kaitav Shah, Analyst**

Thank you for this. The second question I have is, sir, that -- now that we have been hitting ROEs of close to 30%, is there any thought process on having a countercyclical buffer or excess provisioning that you would like to do, so that it mitigates some sort of risk that wherein MFI and used vehicle space on a consistent basis?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

No, we don't follow that. We follow our accounting policies, which is already stated. So during good times, we don't do something. And in bad times also, we don't do something.

**Kaitav Shah, Analyst**

Okay. Sure. But is it something under consideration? That was actually my question.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

No.

**Kaitav Shah, Analyst**

Okay, fine. Thank you so much, sir. Thank you and best of luck.

**Operator**

Thank you. Next question is from the line of Kislay Upadhyay from Abakkus Asset Managers. Please go ahead.

**Kislay Upadhyay, Analyst**

Hello, sir. Congratulations on a good quarter. Sir, pertaining to Asirvad, we see right from Q4 FY '19 the NPAs number have started -- inched up consistently and you mentioned that is a new normal. Could you throw light on this as in why is this the new normal?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Vaidhya?

**Raja Vaidhyanathan, Managing Director, MFI**

I couldn't hear the question properly.

**Kislay Upadhyay, Analyst**

Okay. Sir, so Asirvad NPAs have actually inched up every quarter in the last four quarters. And you mentioned that this is -- 1%, 1.5% is the new normal. Could you explain that why would -- is there a change in credit behavior or what is it?

**Raja Vaidhyanathan, Managing Director, MFI**

See, there is definitely -- after the demonetization itself, the credit behavior changed in the industry. What was -- 99% was based on due date was moved to 1% to 30% bucket. And this discipline then slowly deteriorated and that is the reason. But having said that, still it is the industry, which gives us still close to 98.5% to 99% collection efficiency. Coupled with that, there is always -- this natural calamity plays a big role in this. Somewhere, the most diversified MFIs get hit maximum in that area because if there's floods in -- there is a cyclone in Odisha, there is a flood in Maharashtra, there is a flood in Assam, there's -- so something keeps happening. And the more localized you are, sometimes you're insulated from all this and you don't have this. The more and more you're diversified, something affects. These are the things which affects your collections. So -- and the discipline in the industry and the number of new players, the bank, SFEs and all that. Overall put together, this is increasing, but it is not -- still with all this NPAs and provision, it is one of the best industries in terms of return on assets and return on equity. So we are not really unduly bothered. As the AUM increases, we feel that this will definitely come under control.

**Kislay Upadhyay, Analyst**

Right, sir. What is the exposure in Odisha and West Bengal and the NPA number there, if you could provide?

**Raja Vaidhyanathan, Managing Director, MFI**

West Bengal, we have -- West Bengal is second largest state for us, INR600-odd crores we have right now. I will give you the correct number now. It is not the highest NPA for us West Bengal, the highest NPAs still for us is Karnataka and followed by Kerala, that is the -- West Bengal is fourth for us.

**Kislay Upadhyay, Analyst**

And the same is the case with Odisha?

**Raja Vaidhyanathan, Managing Director, MFI**

Yeah, Odisha also. Odisha is a problem because of the more -- the other players in Odisha, there was a problem with some other competition last year. So all of us got hit because of that,

but it's stabilizing now and we don't -- we will grow in Odisha definitely more.

**Kislay Upadhyay, Analyst**

Sir, could you mention the NPA percentage number in Odisha or West Bengal?

**Raja Vaidhyanathan, Managing Director, MFI**

In -- I'll tell you in West Bengal, our -- we have a par of about INR10 crores on total of 450-odd -- INR650 crores, Odisha it is about INR9.25 crores we have.

**Kislay Upadhyay, Analyst**

Okay, great. Sir, also the borrowing cost for Asirvad went up, actually was very, very benign, have normally been benign. Anything that you could attribute this to? It was just up --?

**Raja Vaidhyanathan, Managing Director, MFI**

It has not gone up, the effective borrowing costs have come down, that is why the rate has decreased. We have -- we were at -- at the beginning, we were at 21%, 22%, then we came to 21.7% -- 21.6% and now we are at 21.3% from January. So the rates have -- the margin -- the cost plus margin basis 10%, it has come down.

**Kislay Upadhyay, Analyst**

Okay. And sir, lastly on the digital gold loan part, do we have FinTech partners we used to source these digital loans from?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

No, no, we don't have. We don't have.

**Kislay Upadhyay, Analyst**

Okay. Okay, sir. Okay, thanks a lot and all the best.

**Operator**

Thank you. Next question is from the line of Shubhranshu Mishra from BOB Capital Markets. Please go ahead.

**Shubhranshu Mishra, Analyst**

Thank you for the opportunity again, sir. I had a few questions with regards to your vehicle finance portfolio and your home loan portfolio. Wanted to understand the number of file log-ins that you get in each of the businesses and the rejection ratios in each of the businesses, sir?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Senthil?

**K. Senthil Kumar, Head, Commercial Vehicle**

See, in terms of -- we have two, three lines of business. In terms of two-wheelers, we have a log-in of around 6,000 files in a month. And the rejection percentage of this should be around 20% actually. And in terms of commercial vehicles, the number of -- since the ticket sizes are slightly larger, the number of files are slightly lower, it is around some 1,500 log-ins per month and we have a rejection ratio of around 25%.

**Shubhranshu Mishra, Analyst**

Okay.

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Mr. Jeevandas?

**Jeevandas Narayan, Managing Director, Housing Finance**

Yeah. We have around -- on average around 20 -- 2 -- 600 log-ins or so, but then the rejection ratio at that rate would be around 40% or so. And after that, once the sanctioned to disbursement also, there is around 20% there is the rejection ratio because the legal and other issues when the property papers are taken would come in. So that is how it works.

**Shubhranshu Mishra, Analyst**

Right, sir. And sir, again, probably through a repeat of multiple questions, how do I look at the credit cost in Asirvad going forward in FY '21? What -- if you can give me the absolute number, it will be very helpful.

**Raja Vaidhyanathan, Managing Director, MFI**

The credit cost -- see, we always provide a standard provision of 1%.

**Shubhranshu Mishra, Analyst**

Okay.

**Raja Vaidhyanathan, Managing Director, MFI**

And over and above that, I think we would provide another 0.75% to 1%, that will be the --

**Shubhranshu Mishra, Analyst**

So it's fair to assume that -- fair to assume a 2% kind of a credit cost for Asirvad?

**Raja Vaidhyanathan, Managing Director, MFI**

If you take the standard assets provision also, yes.

**Shubhranshu Mishra, Analyst**

Right. Sure, sir. Thank you so much.

**Operator**

Thank you very much. The next question is from the line of Aarsh Desai from Vallum Capital Advisors. Please go ahead.

**Aarsh Desai, Analyst**

Yeah, hi. Congratulations on a good set of numbers. My question was with regards to our gold loan growth. If I see year-on-year, you've kind of met your tonnage target in terms of 10% to 12% tonnage growth. And we've also seen a 15%, 16% sort of ticket size growth, which has kind of influenced with gold prices. My question was, in the year going forward as in FY '21, we are again going to target 10% to 12% tonnage growth. But assuming gold price remain flat, we shouldn't see any ticket size growth coming in, is my understanding correct?

**V.P. Nandakumar, Managing Director and Chief Executive Officer**

Yes, you are right.

**Aarsh Desai, Analyst**

Okay, thank you. And my second question was with regards to our cost of borrowings with the new RBI regulation in terms of risk-weighted assets for banks lending to NBFCs, gold loan NBFCs coming down and we're still facing difficulty in kind of raising money from the bank. So why is it so, specifically because it would be lucrative for a bank to lend money to us in that sense? And what is our incremental cost of borrowings coming in from banks?

**Bindu AL, Chief Financial Officer**

So mainly, we are not taking any liquidity challenge, we are getting enhancements from the bank and we did some -- few million CD transactions. So my incremental cost of borrowing around 9.4% because the reason borrowings we are more doing, long-term borrowings like we did around INR1,000 crore in CDs we did. So that is the reason the incremental cost is -- cost of borrowing is going up, but otherwise banks are not reducing the rate, but I am able to get the liquidity -- enough liquidity from the bank.

**Aarsh Desai, Analyst**

Okay, thank you. And my third question was with regards to Asirvad Microfinance. We have very decent exposure in the state of West Bengal. So how do we plan to mitigate the risks that may

arise due to the upcoming West Bengal state elections? And -- I mean, how are you setting up yourself for anything that may possibly occur?

**Raja Vaidhyanathan, Managing Director, MFI**

West Bengal, we have about INR600 crores now. The market in West Bengal is about INR18,000 crores to INR20,000 crores, so we are actually a very marginal player. For us, the portfolio may look high, that's the first point. The second point, West Bengal has traditionally behaved extremely well. In terms of demonetization, it's one of the best states we have had. And the elections -- in the general elections, recent general elections, it did not behave badly at all. So we do not expect any undue things because of elections in West Bengal, otherwise something major happens, even then we are spread over 100 branches, we don't expect it across 100 branches in West Bengal. So we're well diversified in the state.

**Aarsh Desai, Analyst**

Okay, thank you.

**Operator**

Thank you very much. Ladies and gentlemen, due to time constraint, that was the last question for today. I will now hand the conference over to Ms. Shweta for closing comments.

**Shweta Daptardar, Research Analyst**

Thank you, Nirav. On behalf of Prabhudas Lilladher, we thank the management of Manappuram Finance. Thank you all.

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